FOREIGN POLICY REPORTS

February 1, 1938

Trends of International Trade

BY WINTHROP W. CASE

PUBLISHED TWICE A MONTH BY THE

Foreign Policy Association, Incorporated

EIGHT WEST FORTIETH STREET, NEW YORK, N. Y.

VOLUME XIII NUMBER 22 *25¢ a copy* *$5.00 a year*

Trends of International Trade

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with the aid of the Research Staff of the Foreign Policy Association

THE rapid expansion of international trade, which had lagged badly since 1932, was one of the outstanding developments of 1937 in the international economic sphere. Although even in 1936 world production of primary commodities had risen above predepression levels and industrial activity in that year had exceeded all previous records, international trade had failed to show a comparable improvement. Despite current attempts to achieve self-sufficiency, the nations are still geared to international trade. In the absence of a commensurate restoration of the international movement of goods to which they had been accustomed in the past, both the permanence and the soundness of the recovery so far achieved had remained in question.

While the revival of the past twelve months in international trade marks genuine improvement at the weakest point in the international economic order, the outlook is still disquieting enough. The virtual exclusion of foodstuffs from the current trade upturn points to a movement of commerce between nations considerably different from that of the past. Efforts have continued in certain quarters to modify existing restrictions on international commerce, but the continued use of excessive tariffs, quotas, exchange restrictions and a myriad of other regulations, suggests that even the current revival is in considerable measure only on sufferance. Meanwhile, although progress can be recorded in the direction of more stable currencies, the future of the international gold standard—on which the trade of the past was to a large extent based—remains obscured by present nationalistic policies, the increased volatility of capital, and current experiments in monetary management.

International trade is based on the international division of labor, under which each country specializes on products in which it has the greatest advantage relative to other countries—not necessarily what it can produce most cheaply. If it is true that international trade is not to play the same part in the world's economy as in former years, a definite sacrifice of living standards will have to be faced.

THE PRESENT RECOVERY IN INTERNATIONAL TRADE

During the past year, however, there has been a marked expansion of international trade. In the course of the five years ending in 1934 it had fallen to a mere third of its 1929 value (measured in gold money).[1] Although in 1935 its value began to rise again, recovery proved very slow, especially compared with that of industry (see chart and table below). It was not until the close of 1936 that the upturn accelerated and became significant.

1. League of Nations, *Review of World Trade*, 1936, p. 15.

INTERNATIONAL TRADE: COMPOSITION AND COMPARISONS

(1929=100)

	1925	*1926*	*1927*	*1928*	*1929*	*1930*	*1931*	*1932*	*1933*	*1934*	*1935*	**1936*	*†1937*
Primary production	90	91	93	97	100	97	93	92	93	94	98	101	....
Industrial production	82	84	90	95	100	89	79	69	78	85	96	111	120
International trade													
Physical volume	83	85	92	95	100	93	85	74	75	79	82	86	98
Gold value	91	90	95	99	100	81	58	39	35	34	35	37	46
Average prices	110	105	103	104	100	87	68	53	47	43	43	44	47

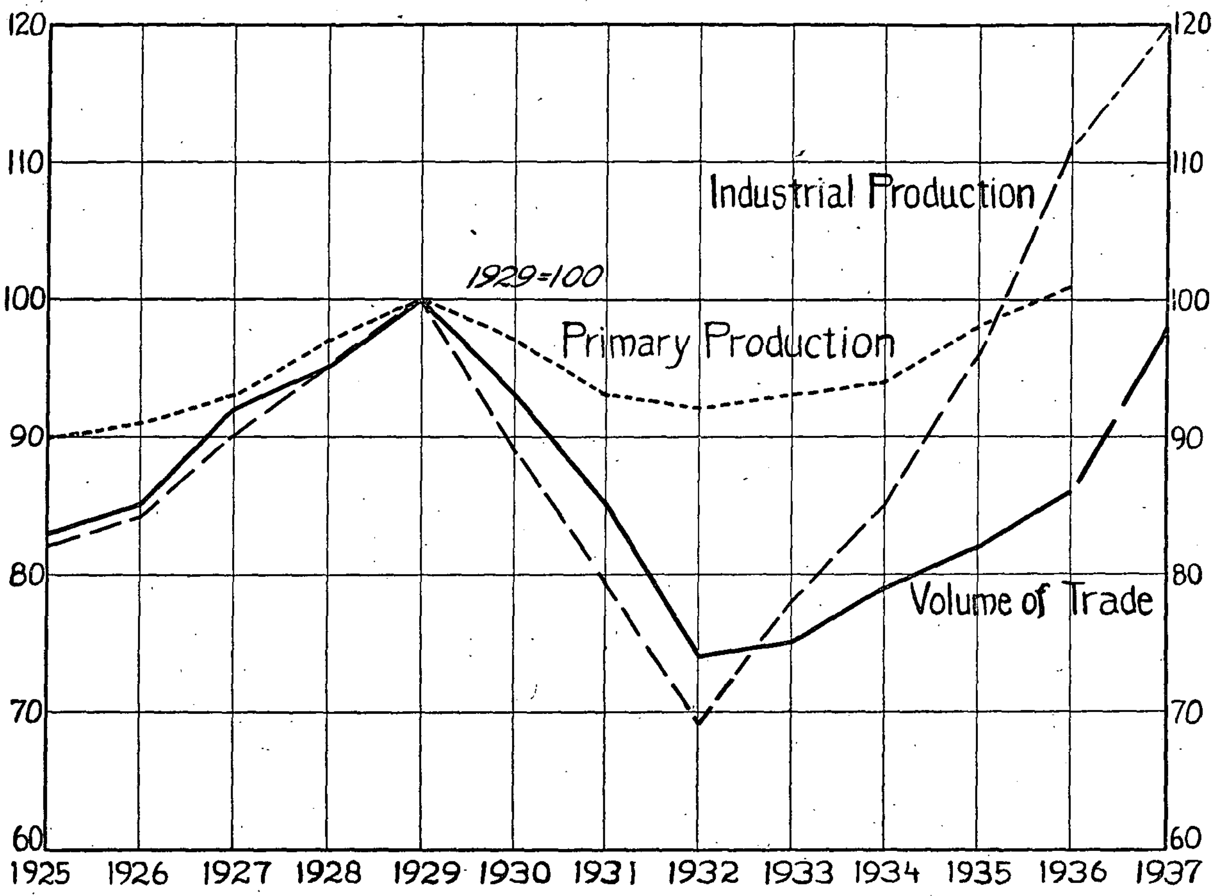
*Preliminary. †Estimated.

Source: League of Nations, *World Production and Prices*, 1936-37, and other League of Nations publications, converted to a uniform base.

FOREIGN POLICY REPORTS, VOLUME XIII, NUMBER 22, FEBRUARY 1, 1938

Published twice a month by the FOREIGN POLICY ASSOCIATION, Incorporated, 8 West 40th Street, New York, N. Y., U.S.A. RAYMOND LESLIE BUELL, *President;* WILLIAM T. STONE, *Vice President and Washington representative;* VERA MICHELES DEAN, *Editor;* HELEN TERRY, *Assistant Editor. Research Associates:* T. A. BISSON, VERA MICHELES DEAN, JAMES FREDERICK GREEN, HELEN H. MOORHEAD, DAVID H. POPPER, ONA K. D. RINGWOOD, PAUL B. TAYLOR, CHARLES A. THOMSON, JOHN C. DEWILDE. Subscription Rates: $5.00 a year; to F.P.A. members $3.00; single copies 25 cents. Entered as second-class matter on March 31, 1931 at the post office at New York, N. Y., under the Act of March 3, 1879.

INTERNATIONAL TRADE AND WORLD PRODUCTION



Distinction must be made between the value and the physical volume of world trade. The 66 per cent drop in value (measured in gold) from 1929 to 1934 was due both to the collapse in prices paid and to the decline in the actual quantity of goods traded, but the fall in prices was much the more important. The decline in physical volume, severe enough in itself, was far less than that of total value (see table on preceding page).[2]

The quantum of trade—to use the League of Nations term for physical volume—commenced to increase slowly in 1933, as industry began to need more supplies and purchasing power again began to expand. International prices, on the contrary, under the deflationary influence of the American and other currency depreciations—among other things—continued to fall until the end of 1934 (measured in gold), and no great recovery took place for some time. In consequence, the value of trade did not increase substantially until 1936.[3] The sharp rise that occurred last year was the result both of an increased movement of goods (quantum) and of higher prices.

The recent rise in volume reflects the advanced stage of recovery in many countries,[4] resulting in a great increase in the demand for all goods and, in many cases, in the inability of domestic industry to meet home needs, notably in the British iron and steel industry.[5] In addition, obstacles to international trade have been somewhat lessened both through such efforts as the United States reciprocal trade treaty program[6] and as a result of less stringent foreign exchange restrictions in some countries. A further factor has been the superimposition of rearmament needs on the increased demand due to more normal causes.

The higher prices reflect changes in both supply

2. It should be noted that the indices of the physical volume or quantum of trade used in this table and elsewhere are not in any sense exact measures, but are of value primarily in indicating the trend.

3. Measured in paper currencies, the increase began earlier—indeed in 1934, if measured in sterling.

4. Institut für Konjunkturforschung, *Weekly Report* (English Edition), June 30, 1937.

5. U.S. Bureau of Foreign and Domestic Commerce, *Commerce Reports*, July 24, 1937, p. 580; *The Economist*, September 18, 1937, p. 561.

6. League of Nations, *World Economic Survey*, 1936-37, p. 75.

and demand. The readjustment of the output of raw materials and foodstuffs noted in 1936[7] has continued. Production has been reduced both by artificial control measures, as in the cases of rubber and tin, and by natural causes, as in the case of wheat, the formerly excessive stocks of which have been reduced to normal proportions by a succession of short crops.[8] On the demand side, the rising tide of recovery, with the added rearmament requirements, in many cases created a so-called seller's market for the first time in years, and caused the bidding up of prices, at least temporarily.

Nevertheless, the physical volume of trade, for all its recent rise, still lags behind both primary and industrial production. Primary production—foodstuffs and raw materials—was relatively well sustained during the depression (see chart and first table). Food consumption is comparatively steady in good times and bad, while the farmer in a period of depression is likely to increase rather than to decrease his crops in the effort to offset falling prices. Mineral raw material production is more readily adjusted to declining industrial demand, and its contraction largely accounts for the decrease in the output of primary commodities shown on the chart during 1931-1933. International trade declined more or less in proportion with industrial activity from 1929 to 1932, but when the latter commenced to revive, the volume of trade shared only to a small extent, and despite further expansion last year still lags far behind industry. For this, the growth in recent years of excessive trade barriers of all sorts—prohibitive tariffs, restrictive quotas, stringent foreign exchange restrictions, etc.—must be held in large measure responsible.

DISTRIBUTION OF THE GAINS

Of the three chief groups of commodities into which international trade is divided, the greatest trade recovery has been in raw materials, primarily because of the expansion of industry and, more recently, of rearmament.[9] The improvement has extended to both prices and volume, the 1936 volume indeed being estimated by the League of Nations to have been but 4½ per cent less than in 1929 (see next table), while in 1937 it was probably considerably higher. Raw materials have been only moderately affected by the efforts of the past few years toward national self-sufficiency, and although trade in them has been hampered more recently by the exchange difficulties of Germany and other debtor industrial countries, it remains relatively unobstructed.[10]

WORLD PRODUCTION AND THE PHYSICAL VOLUME AND AVERAGE PRICES OF INTERNATIONAL TRADE

(1929=100)

	1932	*1933*	*1934*	*1935*	*1936*
Raw materials:					
Production*	79.2	85.0	90.0	96.7	106.2
Trade volume	81.5	87.5	88.0	91.5	95.5
Prices†	44.0	40.0	39.5	39.5	41.5
Foodstuffs:					
Production‡	100.1	100.4	98.9	100.3	100.2
Trade volume	89.0	83.0	82.0	85.5	85.5
Prices†	52.0	45.5	41.5	40.5	42.5
Manufactures:					
Production**	62.6	71.1	77.0	85.0	96.2
Trade volume	59.0	60.5	66.5	69.5	75.5
Prices†	64.0	56.0	50.0	48.0	48.0

*Not including pig iron and crude steel. †Prices of goods entering into international trade only. ‡Including fodder crops. **Excluding U.S.S.R.

Source: League of Nations, *World Production and Prices,* 1936-37, p. 69, and *Review of World Trade,* 1936, p. 15. The trade and production indices are not strictly comparable, but permit a rough comparison between the trends of production and trade.

For foodstuffs the story is different. Although prices rose somewhat in 1936, the quantum of trade was still almost 15 per cent below 1929. Moreover, not only has the recovery to date been small—1936, indeed, showing no gain over 1935—but the 1936 total was even under the 1932 level. The efforts of the industrial countries toward self-sufficiency have been concentrated, at least until recently, on foodstuffs, especially wheat. The failure of this class of trade to show improvement reflects the milling regulations, quotas, and similar prohibitive restrictions with which these countries have buttressed their protectionist policies.[11]

Although international trade in manufactured goods slumped most severely in the early years of the depression, and still remains at a low level, it is now recovering at a faster pace than either of the other groups. One reason is that although prices for manufactures were relatively well maintained in the first years of the depression, at a time when those of primary commodities declined drastically, the situation has been reversed in the last few years. The trend of primary prices has been upward (except for the recent decline), while prices for manufactured goods have continued to fall. The agricultural and raw material countries are

7. Winthrop W. Case, "Currents of World Recovery," *Foreign Policy Reports,* August 15, 1936, pp. 139-40.

8. It may be noted in the case of wheat that potential world production (i.e., granted normal weather) remains well in excess of consumption needs.

9. *World Economic Survey,* 1936-37, cited, p. 76.

10. League of Nations, *World Production and Prices,* 1936-37, p. 70.

11. *World Economic Survey,* 1936-37, cited, p. 122; *World Production and Prices,* 1936-37, cited, p. 73.

therefore able to buy more with their exports.[12] A further element in the sharp drop in 1930-1932 and the subsequent recovery is the fact that this class consists to a considerable extent of either capital goods or luxuries and semi-luxuries (such as, from the economic point of view, the automobile). New expenditures for such merchandise are most easily postponed in times of hardship, and the demand consequently rebounds most sharply with improving conditions.

As for the geographical distribution of world trade, the outstanding phenomenon has been the steady decline in the relative importance of European exports and imports. Not only did the gold value of European trade shrink steadily along with the rest of the world as the depression deepened, but in 1936 European trade, excluding Russia, was still more than 10 per cent under its 1932 value, although every other continental area has improved since 1932. The quantum of European trade, unlike its value, was greater in 1936 than in 1932, but the increase was much less than that of the world as a whole. In 1937 the value of European trade appears to have increased sharply, but that for the entire world seems to have risen even more rapidly. Europe still accounts for more of the world's trade than any other continent, but its share has now fallen to a bare half of the total. Although the disturbed conditions in Italian and Spanish trade, along with the gold bloc devaluations which reduced the gold value of their trade, have contributed to the decline, the chief cause seems to have been the prohibitive trade barriers erected by much of Europe in recent years, which appear to have especially affected intra-European trade.[13-14]

Generally speaking, the European countries that devalued early, and for this as well as other reasons have recovered most, have fared best in their foreign trade. The agricultural countries of Eastern Europe have benefited in addition from the further improvement in their terms of trade due to the rise in primary commodity prices and the decline in prices for manufactured goods. This is also generally true of the agricultural and raw material countries in other parts of the world, especially Latin America, Asia and Oceania.

Space is lacking for detailed discussion of the trade of individual countries. It may be noted, however, that British trade with Empire countries has continued to increase at a faster pace than with other regions, thanks in considerable measure to the imperial preference established by the Ottawa Agreements in 1932.[15] It has, however, been handicapped by the loss of trade with Italy during sanctions and, so far as exports are concerned, by Britain's increasing preoccupation with its own very active domestic markets.[16]

Noteworthy in the case of the United States has been the reduction of the accustomed surplus of exports over imports. In part, it is the result of the curtailment of our agricultural exports by drought and government control measures. It also reflects the gradual shutting out of our farm products by the protectionist measures of European countries, as well as our greatly increased raw material imports due to our industrial recovery. How lasting it will prove remains to be seen. The Administration's reciprocal trade program has apparently stimulated both exports and imports.[17]

French exports in 1936 continued to be retarded by high prices, and were practically unchanged in value and lower in volume, while imports were considerably higher, partly in anticipation of devaluation. Last year, however, exports finally showed definite improvement both in total value and in physical volume,[18] apparently reflecting progress in the restoration of the competitive power of French products abroad, partly through the depreciation of the franc.

German foreign trade has expanded, although a close balance of exports and imports has been maintained by the government's rigid control. Germany has been outstanding in the promotion of strictly bilateral trade, in which imports from each country are balanced directly against exports. Imports from countries failing to take a proportionate share of German products have been sharply reduced, with the result that the value of German imports from the four areas[19] that formerly supplied a large part of its raw material and food requirements declined to only 14.0 per cent of all imports in 1936 from 20.7 per cent in 1934. At the same time it has aggressively pushed the expansion of its exports both in Southeastern Europe[20] and Latin America as the price for its continued purchases from them, its sales to these regions rising to 18.2 per cent of its total exports

12. *World Economic Survey*, 1936-37, cited, pp. 123 *et seq.* There appears to have been some check to this trend in 1937.

13-14. *Review of World Trade*, 1936, cited, p. 18.

15. Cf. Discussion of the Ottawa Agreements and their effects in *The Economist* (London), May 1, 1937, pp. 262 *et seq.*

16. *Review of World Trade*, 1936, cited, p. 34.

17. Winthrop W. Case, "Results, Though Not Conclusive, Indicate Success of Reciprocal Trade Pacts," *The Annalist*, February 12, 1937, p. 270.

18. *Bulletin de la Statistique Générale de la France*, September 1937, p. 12, and previous issues.

19. United States, British Dominions, Netherlands Indies and the Argentine. Cf. *Review of World Trade*, 1936, cited, pp. 39-40.

20. Cf. John C. deWilde, "German Trade Drive in Southeastern Europe," *Foreign Policy Reports*, November 15, 1936.

in 1936 from only 9.6 per cent in 1934. It is to be noted that this readjustment of Germany's trade is being accomplished only at the price of selling cheap and buying dear—of selling German products at relatively unprofitable prices and paying relatively high prices for imports.[21]

Of Italian trade it need only be said that it has largely recovered from the sanctions period but continues to be marked by a shift toward Central European countries,[22] in line with Italy's political activities in that field.

Japanese foreign trade is still expanding, but at a much reduced rate so far as exports are concerned, partly because of greater competition by other countries in its overseas markets, partly because of increased restrictions imposed on Japanese goods by the importing countries. The value of its exports to Latin America, for instance, showed little increase from 1934 to 1936, thanks in considerable measure to competition from the United States, although Japan has sharply increased its imports from this region in the effort to protect its exports.[23] In the first eight months of 1937, however, expansion in Latin America seems to have been resumed.[24-26] Imports generally have continued to rise in value, owing both to the recent rise in raw material prices and to the requirements of Japan's industrial expansion and military activities. The rise in imports has so outdistanced exports that early in 1937, alarmed by the increasing pressure on its means of payment, Japan instituted exchange control in order to regulate strictly the volume of imports. Since then the launching of the campaign in China has changed the situation. If this campaign proves protracted, exports are likely to suffer from rising costs and the pressure of military needs, while imports, except essential raw materials and other necessary products, will probably be increasingly curtailed.

THE CURRENT WORLD TRADE SITUATION

At the present moment international trade is experiencing an appreciable setback. The decline in prices, which last summer succeeded the partly speculative rise of the preceding winter and spring, not only has reduced the total value of international commerce, but has apparently affected the actual volume as well. The decline in business activity in the United States has curtailed the foreign requirements of the world's second largest importer, and its imports are currently close to a fifth less in volume than last spring. The drop in world prices, although at first merely the natural reaction from the previous rise, has since the autumn been apparently due to the recession in the United States. Entirely apart from the reduced demand from this country, the lower prices now being received by the agricultural and raw material countries for their products cannot but adversely affect their buying power and therefore the foreign markets of the industrial nations.

If the recession in the United States continues, the importance of this country is such that recovery abroad may be jeopardized, especially since in Great Britain and some other countries it has reached an advanced and relatively vulnerable stage. If, on the contrary, the setback here proves temporary, as there is some reason to hope, the decline in prices will probably be checked and the lost ground regained. Until the outlook in regard to this country is clarified, however, the immediate prospects for world trade remain uncertain.

Meanwhile, assuming the recession to be only temporary, consideration may well be given to some of the factors in the longer-range outlook. The prospect for any substantial increase of trade in foodstuffs is scarcely favorable, in view of the determination of the chief food importers to expand their own production. Trade in raw materials is likely to increase more or less in proportion to further industrial expansion. Exports of manufactures should continue to rise as the increasing sales of the raw material countries enable them to pay for more manufactured goods.

Apart from the immediate recession, therefore, the outlook for continued and improving demand from the agricultural and raw material countries in the near future remains generally favorable, especially as further moderate improvement in the supply-demand situation of their products seems likely. So far as the markets for imported products in the industrial nations are concerned, the crux of the question is of course the future course of industrial activity. It is true that world industry, excluding Russia, is currently operating at around 10 per cent above the 1928 average,[27] but this can scarcely be called unduly high since it no more than equals the growth in the world's population during the same period,[28] even if it be assumed

21. There has apparently been some improvement in 1937 in Germany's terms of trade, as well as somewhat reduced emphasis on bilateral trade.

22. *Review of World Trade*, 1936, cited, p. 45.

23. *Ibid.*, p. 43. Cf. also Howard J. Trueblood, "Trade Rivalries in Latin America," *Foreign Policy Reports*, September 15, 1937.

24-26. *The Oriental Economist* (English Edition), October 1937, p. 620.

27. Winthrop W. Case, "On the World Economic Front: Declining Price Trend Obscures Foreign Outlook," *The Annalist*, December 24, 1937, p. 1020.

28. League of Nations, *Statistical Yearbook*, 1936-37 and 1926.

there are no deferred needs accumulated during the depression that still await satisfaction. There is nothing in the amount *per se* of industrial recovery to date to indicate general overexpansion of industry, with its threat of imminent reaction and decline.

Obviously, far more than this is involved in the situation, and it is true that the future of world industrial activity is more obscure than a year ago, especially since in a number of countries recovery appears to be approaching a boom stage.[29] On the other hand, in the United States, France and other important countries, the revival of industry can scarcely be said even to have approached maturity, much less the boom stage that is a prelude to decline. The normal course of industry and business activity in these countries at the present time is certainly still upward, although here as elsewhere orthodox policies have been so far abandoned as to make prediction difficult.

The current tide of rearmament is of course an additional adventitious element which, whatever its ultimate effects, tends immediately to stimulate further industrial expansion. Relatively unimportant as a factor in recovery until mid-1936, it has played a rapidly expanding part in many countries, especially where, as in the United Kingdom, its stimulus has been superimposed on a recovery already well advanced. On the other hand, its importance to date must not be exaggerated; it has been relatively unimportant in the United States and in the agricultural countries outside Europe.[30]

RESTRICTIVE COMMERCIAL POLICIES

There are three other factors bearing directly on the longer-run outlook for international trade: the development of excessive trade restrictions and barriers of all sorts; the present uncertainty regarding currencies, international exchange and the gold standard; and the drift toward economic nationalism.

Trade restrictions of course are by no means new. The United Kingdom, dependent for its prosperity on the interchange of goods, has been in the past the chief, although not the sole, exponent of free trade. Long before the war not only the United States but Germany and many other countries of Europe, not to mention Latin America and Asia, were committed to protectionist policies. Nevertheless, the prevailing tariffs were for the most part moderate and—even more important—relatively stable.

Although the economic disorganization that was the legacy of the World War greatly stimulated trade restrictions, it was not until the full force of the depression began to be felt that the present *sauve qui peut* protectionism developed on a large scale. Its primary purpose was to keep out foreign goods in the effort to check rising unemployment and the fall in domestic prices which threatened both industrialist and farmer with insolvency. A further reason was the need of safeguarding national gold reserves by decreasing or eliminating an excess of imports over exports for which payment had to be made abroad in gold. In addition, the high duties of certain countries, such as the Hawley-Smoot tariff of the United States in 1930,[31] and the abandonment of free trade by the United Kingdom, provoked measures by other countries in which retaliation was quite as important a motive as protection.

Three kinds of protectionist measures were adopted: tariffs, quotas, and exchange control. First, tariffs were raised sharply. Although it is of course true that increased duties hamper international trade, they at least permit the continued functioning of an international price system resting on the interplay of supply and demand that has been the basis of past international trade.[32]

As the depression deepened, however, and especially as the depreciation of many currencies led to so-called exchange dumping,[33] tariffs soon appeared inadequate to protect shrinking home markets from foreign goods. More positive measures were sought. The urgency of the need led many countries to ignore the less immediate consequences, such as the danger that the immediate benefits might be wiped out in the end by the curtailment of foreign markets for the export industries. Quotas—the limitation of imports of an article to a specific amount—had the merit of certainty as well as apparent simplicity. In practice, however, their administration proved complicated, owing to recriminations in the allocation of quotas between individual nations and shippers, all clamoring for a share in the market.

As the pressure on the currencies of the weaker countries, and the drain of their gold reserves abroad became greater, direct exchange control was resorted to in many cases. A measure more of monetary than of trade defense, exchange control did not necessarily involve a quantitative limitation of imports of specific commodities, as under the

29. *World Economic Survey*, 1936-37, cited, p. 215.

30. *Ibid.*, p. 50.

31. *Ibid.*, p. 139.

32. Dr. Leo Pasvolsky, "The Technique of Protectionism," Joint Committee Carnegie Endowment, International Chamber of Commerce (hereafter cited as Joint Committee), *The Improvement of Commercial Relations Between Nations*, p. 54.

33. *World Economic Survey*, 1936-37, cited, p. 138.

quota system.[34] It did, however, limit nearly as rigidly the total volume of imports by restricting the amount of foreign exchange available for importers to use in paying for their purchases abroad. In the end, it often became necessary to extend the allocation of foreign exchange to individual commodities, especially in such countries as Germany where the pressure was severe.

An alternative to exchange control, to which most countries have resorted in the past nine years, is currency depreciation. Unlike the post-war depreciations and their accompanying inflations, the recent depreciations have been in general the result not of hopeless domestic government debts and impossibly unbalanced budgets but rather of foreign exchange and trade difficulties. Where foreign indebtedness was heavy, exchange control has often been necessary as well, while in such countries as Germany, with particularly unhappy memories of inflation, exchange control has been resorted to as an alternative to depreciation.[35] Currency depreciation in its immediate effects on international trade resembles a tariff rather than the quota system, leaving considerable freedom for the operation of supply and demand.

Exchange control, on the contrary, especially of the stringent German variety, has often been only the beginning of a whole series of restrictions. Such nations as sell more to an exchange control country than they buy from it are forced by that country to increase their purchases if they do not wish their exports to be curtailed.

Nations, on the other hand, to which the exchange control country owes money (such debts are one of the main reasons for instituting exchange control in the first place) usually buy more from the control country than they sell to it. The latter generally wishes to use the surplus exchange from its excess of exports to purchase goods in other countries. The creditor nations, however, customarily insist on the application of the surplus foreign exchange to the payment of the debts due them, and are able to enforce their demands by threatening to cut down their imports of goods from the exchange control country or to divert part of the sums due on the imports to payment on the debts. The result is usually a clearing agreement, which the exchange control country is obliged to accept, and in which all transactions between the two countries are cleared through central offices. The resulting surplus foreign exchange is applied to outstanding indebtedness. This supposedly straightens out the commercial relations between the two countries, albeit too frequently at the cost of almost prohibitive red tape, trouble and delay. Often, however, the benefits prove illusory. Exports to the exchange control country tend to increase sharply, since exporters now have greater confidence of receiving payment. The result may well be the complete wiping out of the surplus on which the clearing agreement was based, and the necessity of attacking the whole problem all over again.[36]

Clearing agreements, once begun, tend to spread and to involve more and more countries—especially those whose monetary and trade position is relatively weak—in an increasing network of harassing restrictions, complicated regulations, delays and inconvenience. At the present time Germany is the center of the system, which in varying degrees includes most of Europe, as well as a good part of Latin America.

A logical consequence of these various restrictions is the bilateral balancing of international trade—the attempt by a country to attain an individual balance of exports and imports with each country with which it trades. Germany is the outstanding example of this practice, although by no means the only one.[37] Triangular or multilateral trade has always been one of the most productive types of international trade.[38-39] Its elimination would have an effect on a nation's commerce essentially akin to that which within the country would be experienced, for instance, by an industrialist who purchased his raw materials and selected his labor only from those who bought his particular products. The declining importance of multilateral trade not only is at the direct expense of world trade as a whole, but also entails a loss of flexibility which adversely affects other types of trade as well.

These various restrictive policies have done much to stimulate the industrialization of the "young" countries—countries that are industrially young because in the past they have devoted themselves primarily to the production of raw materials and foodstuffs which they exchanged for the manufactures of the industrial nations. Finding the markets for their exports increasingly curtailed, and consequently facing greater difficulty in paying for

34. For a discussion of the varieties of exchange control and their effects, cf. Prof. Dr. Andreas Predöhl, "The Experience of the Countries Practicing Exchange Control," Joint Committee, *The Problem of Monetary Stabilization*, pp. 280 *et seq.*

35. There has of course been an unofficial depreciation in Germany.

36. For a comprehensive survey of clearing agreements and their effects, anticipated and otherwise, cf. League of Nations, *Enquiry into Clearing Agreements* (Geneva, April 3, 1935).

37. League of Nations, *Review of World Trade*, 1935, pp. 64 *et seq.*

38-39. Prof. Bertil G. Ohlin, Joint Committee, *International Economic Reconstruction*, p. 94.

their imports, they have turned to the development of domestic industry to provide the goods they formerly bought abroad. The end result is a loss by the older industrial countries of Europe of their own export markets, their export industries suffering severely[40] and the trade of industrial Europe as a whole declining in importance. The trend toward the regionalization of trade, as exemplified in the Ottawa agreements and the Oslo Treaty, is another consequence not necessarily restricting trade further—although that on the whole has been the effect of the Ottawa Agreements—but certainly tending to emphasize local and group considerations at the cost of an international market.

At the present moment there is a certain, if limited, diminution in the severity of prevailing trade restrictions. The expansion of industry in some countries, partly because of rearmament programs, has created bottlenecks. Industrial capacity has proved inadequate to meet domestic needs, and it has therefore been necessary to resort to larger imports. The most conspicuous example has probably been the removal of certain of the British iron and steel duties in March 1937, as a result of the inability of the British steel industry to supply the combined requirements of a much expanded industry and a heavy arms program.[41] It is doubtful, however, whether such alleviations of trade restrictions would survive a recession in domestic industry in the United Kingdom or elsewhere.

There have been, on the other hand, a number of efforts to promote lower tariffs and reduce other restrictions on strictly general economic grounds —in the belief, that is, that active steps must be taken if international trade is to be freed at all. There was a very moderate liberalization of commercial restrictions following the Tripartite Monetary Agreement, when the franc and associated currencies were devalued in September 1936.[42] The recent Oslo Treaty provided, among other things, for the elimination of certain quotas between the signatory nations.[43-44] The reciprocal trade program of the United States is perhaps more significant, both in view of the importance of that country, and of its past record as an outstanding exemplar of high tariff policies.

Despite such steps as these in the direction of lower trade restrictions, very little seems actually to have been accomplished to date beyond somewhat checking a trend toward higher barriers. Quotas on the whole remain intact, and duties high.[45] More effective perhaps has been the relative monetary stability attained in recent months, as well as the upward trend in prices (until recently) during the last year or two,[46] which facilitate a relaxation of the more severe exchange restrictions, as has been recently done in Poland.[47]

Continued domestic recovery throughout the world doubtless tends toward relaxation of trade restrictions, but domestic recovery itself is dependent to a considerable degree on such relaxation. The initiative obviously cannot be taken by countries that are economically weak or whose foreign exchange situation is difficult or precarious. Yet the strong countries for the most part have been unwilling to go beyond comparatively unimportant concessions.

BREAKDOWN OF THE GOLD STANDARD

The breakdown of national currency systems and the international gold standard has already been mentioned. Although it is itself largely the result of restrictions on trade, it has resulted in further trade dislocation, the disorganization of commercial relations generally, and the prevention of international loans, all of which have been important elements in the lagging of international trade in the past five years.

That the international gold standard functioned successfully during the pre-war years was not fortuitous. The relative freedom of trade which then prevailed—especially the absence of quantitative restrictions—itself contributed materially to the success of the gold standard. Control of international commercial relations was largely centralized in the countries of Western Europe, particularly the United Kingdom, which supplied the emigrants to settle the new countries, the capital goods for their development, and the funds for financing them, and at the same time bought their products, especially their foodstuffs.[48] The administration of the gold standard, indeed, was virtually in the hands of London.

Commodity prices rose generally from the mid-nineties until the World War, tending to ease such strains as might develop. Banks in the various countries as a rule permitted international gold movements to be reflected in their credit policies, tightening credit when gold flowed out. Thus,

40. Case, "Currents of World Recovery," cited, pp. 140, 144.

41. *World Economic Survey*, 1936-37, cited, p. 143.

42. *Ibid.*, p. 137.

43-44. Belgium, Luxemburg, the Netherlands, Denmark, Norway, Sweden and Finland. Cf. *The Economist*, June 5, 1937, p. 561.

45. *World Economic Survey*, 1936-37, cited, p. 138.

46. *Ibid.*, pp. 138-39.

47. Samuel Montagu & Co. (London), *Weekly Review*, November 25, 1937, p. 576.

48. Dr. D. H. Henderson, "New Technical Arguments for Postponing Stabilization," Joint Committee, *The Problem of Monetary Stabilization*, cited, p. 162.

when the balance of trade was against a country, the outflow of gold in payment for the excess of imports caused a contraction of credit and a curtailment of business activity, resulting finally in a lowering of prices to a point where the country's competitive power in foreign markets was restored, exports increased, and the outflow of gold halted. By this means equilibrium was maintained between the price structures of the various countries—an equilibrium which was the heart of the international market of the past and of the international economic order founded on it.

Since the war, and entirely apart from purely transitory factors, the situation has greatly altered. No longer is the movement of trade relatively free. The increasing lack of flexibility of national economic structures[49] makes nations less willing to attempt deflation in order to check an exodus of gold. As a result of the increased diffusion of manufacturing throughout the world, there is far less assurance to a creditor country that the foreign loans it makes will be transmitted in the form of exports of goods to the borrower—thus obviating the transfer of gold—or that they will increase the capacity of the borrower for exporting goods in payment.[50]

Financial control, formerly centralized in London, is now dispersed between that city, Paris and New York, with a resulting lack of cooperation, coordination and, so far as the latter two are concerned, experience.[51] The mobility of capital has been greatly increased by the stock market and similar institutions, which have made capital far more liquid than in the past. Partly in consequence, gold and capital movements, formerly chiefly for investment purposes, are now often speculative, or represent refugee capital in search of safety abroad. These irresponsible capital movements subject the international exchanges to strains of an unprecedented intensity.[52]

The consequence is that international gold movements no longer necessarily reflect commercial currents for which the expansion or contraction of credit in the traditional manner is an adequate answer. The conflict between the demands of external and internal stability—stability of the foreign exchanges and stability of domestic prices—has accordingly increased.[53] It is an open question whether, in the future, the leading nations will sacrifice their domestic industry to the deflation that may be necessary in order to maintain their foreign exchange stability, when the outflow of gold that threatens it may perhaps be only due to the prospect of speculative profits on some foreign stock exchange. Stability of foreign exchanges—that is to say, the international gold standard of the past—seems likely therefore to be appraised in the future at a considerably lower value in the determination of national policy.

THE OUTLOOK FOR CURRENCY STABILIZATION

The successful operation of the classical gold standard requires the satisfaction of at least the following four requirements: relative freedom of international trade; a solution of the international debt problem; restoration of economic equilibrium within each country (including government finances); and the willingness and ability of each country to permit international gold movements to exercise their traditional effect on the internal credit situation, in the manner already outlined.[54]

The international debt problem has been solved after a fashion by adjustment or default. The restoration of internal equilibrium would probably be well under way by now in most countries except for rearmament. But the prospect for the fulfilment of the other two specifications, as already noted, is not auspicious.

Any stabilization of currencies must provide for the adjustment of excessive international debts not only to the capacity of the debtor country to pay, but—what is much less widely appreciated—to the willingness of the creditor country to accept payment in goods.[55] On the other hand, any attempt at stabilization seems likely to prove futile which undertakes to ignore the vitality of the current trend toward self-sufficiency and the increased readiness to sacrifice such considerations as foreign exchange stability to domestic *desiderata*. Economic factors are but one element in what is at bottom a matter of national policy, and national policy, wisely or unwisely, may on occasion decree the sacrifice of economic advantages to what are conceived as more important considerations.[56]

49. Cf. p. 276.

50. Henderson, "New Technical Arguments for Postponing Stabilization," cited, p. 164.

51. Joint Committee, *International Economic Reconstruction*, cited, p. 41.

52. F. G. Conolly, "International Short Term Indebtedness," Joint Committee, *The Problem of Monetary Stabilization*, cited, p. 368.

53. Joint Committee, *International Economic Reconstruction*, cited, pp. 79 *et seq.*

54. "Stabilization of Currencies," Barclays Bank, *Monthly Review* (London), March 1935, p. 5; Case, "Currents of World Recovery," cited, pp. 143-44.

55. This may entail a choice by the creditor nation between the maintenance of its exports and the payment of debts owing it. The United States has, more or less unwittingly, chosen the former. Cf. Prof. Jacob Viner, "The Technique of Present-Day Protectionism," Joint Committee, *The Improvement of Commercial Relations Between Nations*, cited, pp. 77-78.

56. Prof. Dr. Andreas Predöhl, "Relations Between Currency Instability and Tariff (and Allied) Changes," Joint Committee, *The Problem of Monetary Stabilization*, cited, p. 149.

The immediate outlook appears to be for the prolongation and extension, with increasing assurance, of the present provisional stabilization; for the gradual relaxation of restrictions on foreign exchange where improving conditions warrant in those countries now exercising control; and for continuation of the use of exchange stabilization funds by leading countries in order to cope with excessive capital movements.

As for the longer run, it seems likely that *de facto* exchange stability will gradually crystallize out of the present exchange parities, but it is less probable that any absolute parities will be set up, to be maintained under all circumstances and at all costs.[57]

Long-term loans will probably be less in evidence in the future than before the depression because of reduced need, the likelihood of continued restrictions on international trade, and the lessened confidence in exchange stability.[58] The existence of large mobile bodies of speculative capital promises to continue, even should refugee capital as such disappear by reason of increasing stability. Exchange stabilization funds will apparently remain necessary in order to cope with such movements, thus precluding the restoration of complete freedom in the movement of international funds and payments. A reconciliation of the threat offered by these irresponsible bodies of capital with the required freedom of movement of commercial funds will possibly be found in some such provision as that suggested by Dr. Henderson, under which foreign exchange would be made freely available for commodity transactions while capital movements would remain rigorously controlled.[59]

ECONOMIC NATIONALISM

As the world depression recedes, the future of international trade appears more and more bound up with the present trend toward economic nationalism. The phase represented by the industrialization of the "young" countries has already been noted. Its counterpart is found in the so-called re-agrarianization of the older industrial nations, chiefly in Western Europe—in their attempt to provide a greater part of their food and raw materials from within their own borders. In both aspects there is a growth of stringent and repressive trade restrictions, the drastic curtailment of international trade, the increasing isolation of national economies, and the progressive loss of the benefits of the international division of labor.

Economic nationalism is much more than a depression phenomenon. It is true that it has reached its most extreme forms in the last few years, under the guise of defensive measures against deflation, falling production and prices, growing unemployment, and foreign exchange difficulties. It is also true that tariffs, quotas and similar restrictions, once inaugurated, inevitably give rise to new vested interests, primarily concerned with their own perpetuation, which make difficult any return to freer conditions. But behind these more temporary aspects are a number of deep-seated trends which make it doubtful whether, even with complete domestic recovery, there can be any thoroughgoing retreat from present nationalistic policies.

There is, first, what may be called the philosophical ideal of the balanced and rounded economy. Convinced of the importance of political, social and cultural considerations, even at the cost of strictly material progress, the industrial countries have sought to preserve their agriculture from the competition of low-cost overseas producers. The agricultural nations, seeking the benefits of industrialism, for their part have adopted policies to broaden their one-sided colonial economy.[60]

Secondly, the slackening of the rate of population growth, especially in the so-called advanced nations, entails a slower economic expansion and therefore a reduced demand for the capital and investment goods which characterize the export trade of the industrial nations.[61] In Europe it has also fundamentally altered the food situation. Prior to the World War the problem of feeding a growing population from a limited area had seemed to pose a dilemma which could be resolved only by increasing imports of food, to be paid for by larger exports of manufactured goods. The approaching stability of population, together with the increase of domestic agricultural production as a result of technical advances, has greatly reduced the urgency of the food problem as a reason for maintaining relative freedom of trade.[62]

In the third place, the national search for economic security and stability, while by no means

57. For a discussion of the problems involved in stabilization, cf. Henderson, "New Technical Arguments for Postponing Stabilization," cited, pp. 165 *et seq*, and Mr. Dag Hammarskjöld, "A Disintegrated, Provisional Monetary Standard as a Basis for Stabilization," pp. 385 *et seq.*, in Joint Committee, *The Problem of Monetary Stabilization,* cited.

58. Cf. *The Economist,* November 20, 1937, p. 366.

59. Henderson, "New Technical Arguments for Postponing Stabilization," cited, p. 169.

60. League of Nations, *Remarks on the Present Phase of International Economic Relations* (September 1937), p. 25.

61. Prof. Dr. Ernst Wagemann, "The Future of World Trade," International Chamber of Commerce (Paris), *World Trade,* June 1937.

62. Henderson, "New Technical Arguments for Postponing Stabilization," cited, p. 161. Cf. also C. E. Hubbard, *Eastern Industrialization and Its Effects on the West* (New York, Oxford University Press, 1935), p. 313.

new, is much more intense than before the war. The various national economies have become less adaptable to changing conditions in recent years, as monopolistic prices, inflexible labor rates, fixed interest charges, rigid tax burdens, and similar items have assumed greater importance. Nations are consequently less and less willing or able to meet such violent changes as those of the last two decades by orthodox deflationary measures. The attempt to do so may well entail a choice between currency depreciation, "reflationary" programs and other more or less unorthodox measures, and the threat of social disturbance or even revolution. The fact is that the economy of the modern state has become so complex and so sensitive to outside influences that it now seems preferable to many nations to sacrifice the advantages of being a part of an international market over which they have no control.

The attempt to insulate the national economy from external disturbances is, moreover, implicit in any of the present day efforts toward economic planning as such. Planning postulates control of all the ingredients. How far such planning may really be feasible lies outside the scope of this study, but to the extent that it is attempted, the country's foreign trade can scarcely be exempt from control, whatever restrictions it may entail for international trade in general.

A fourth factor in economic nationalism, related closely to the foregoing, is the fear of war, which causes countries, as far as possible, to make their political and economic boundaries coincide. Whether the political uncertainties that rule the world today are only a passing phenomenon can scarcely be answered at present. So long as they prevail, however, those countries whose foreign trade would be vulnerable in time of war will strive in peace time to make themselves independent of it—regardless again of the consequences for international trade in general.

Last of all may be mentioned the so-called internationalization of the machine process. The export of merchandise is being replaced in many fields by the export of technique. The simpler forms of manufacturing have become so standardized that the less advanced countries are now able to produce textiles, shoes, automobile tires, and the like with relatively little loss of efficiency. The competing industries of the older nations have of course suffered, notably those of the United Kingdom.[63] Their problem of readjustment has been greatly aggravated by the wartime and post-war dislocations and the last depression. Henceforth, however, it promises to be somewhat less acute.[64] International trade is likely in the future to be less concerned with the simpler standardized goods and more with specialty merchandise of all sorts, particularly capital goods.

63. Hubbard, *Eastern Industrialization*, cited, pp. 316 *et seq.*

CONCLUSION

The outlook for a resumption of international trade on the pre-war basis therefore cannot be considered favorable. The fact is that the economic world has changed fundamentally in the past quarter-century, and international trade, like the other phases of world economy, will have to adjust itself to basically altered conditions. Even assuming that a way is found to lessen the existing international tension, it still is improbable that there can be a return to the freedom in international commercial relations that marked the pre-war years.

Nevertheless, it by no means follows that international trade is destined to suffer a permanent eclipse. Industrial nations must still import raw materials and, to a lesser extent, foodstuffs, and the less advanced countries will not for a long time undertake to make for themselves the more complicated industrial products. Trade in specialized manufactures between the industrially mature countries, such as has marked intra-European trade, will still be advantageous under nationalistic régimes. Moreover, even the markets for the simpler manufactures are by no means lost, although extensive changes in their character and distribution are probable. So long as there remain considerable sections of the world that are industrially undeveloped and in which the standards of living are rising, there will remain large markets even for the standardized staples of industry.

The problem of carrying on international trade in the face of the increased measures of control is only one aspect of the larger problem of state intervention in our economic life generally. Unless one accepts a defeatist attitude toward the larger question, one must believe that the necessary technique will be developed to continue international as well as domestic trade under the changed conditions. There is no reason to suppose—granted a solution of the political problem—that the world's economic progress has reached its limit. Until then, growing international trade should remain an essential, although modified, ingredient of rising world living standards.

64. The development of synthetic raw material substitutes, such as rayon and petroleum made from coal, is the converse of this trend in the industrial nations.